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## Faculty Working Papers

SOME EMPIRICAL RESULTS ON CONGLOMERATE  
MERGERS AND COLLECTIVE BARGAINING

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#159

College of Commerce and Business Administration  
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The rapid expansion of the conglomerate as a method of corporate organization during the 1960's has given rise to a growing amount of literature suggesting that the NLRB take a more flexible approach to the determination of the "appropriate unit" of bargaining. While bargaining power is specifically not one of the criteria used by the Board in the determination of the bargaining unit, most arguments for coalition bargaining have focused on the shift of tactical power in favor of management due to conglomerate mergers. At least one author has suggested that the bargaining unit be a mandatory issue in bargaining [1]. Aside from the question of whether or not the board should consider power as a criteria, the real issue is how much unions have been hurt by this change in corporate organization.

While there has been a great deal of theoretical speculation on the impact of the bargaining unit on union power over wage levels, there has been little empirical testing of the resulting hypotheses. Perhaps this is due to a general consensus among labor economists on the power relationships. Kenneth Alexander points this out in his paper on conglomerates and collective bargaining [1, p. 362]:

"While economists continue to differ over product-market effects, there is remarkably lesser disagreement over the impact of conglomerate mergers on collective bargaining."

This note uses some empirical evidence on the impact of the bargaining unit on union wage levels to try to evaluate the argument that there has been a shift in bargaining power in favor of management.



There are two basic reasons given for this shift in power: increased ability to "whipsaw" unions and increased staying power in the form of "deep pockets." These arguments are virtually identical to those given for the difference in union power between single-plant and firm-wide bargaining units. They suggest that ceteris paribus unions bargaining in firm-wide units should have more bargaining power (and therefore higher wages) than unions bargaining in single plant units. Of course, there may be a substantial difference between the case where a single union organizes a firm in single plant units and the case where several unions organize the firm in different units. There are thus two important questions: How does differential ability to "whipsaw" unions and increasing staying affect union power when the firm is organized by a single union, and what is the effect when the firm is organized by different unions?

#### "Whipsawing" and "Deep-pockets"

In an earlier paper on the effect of market structure on union wage rates [2] we presented some empirical results which bear on the first question. These were:

- (1) There is no significant difference in union wage levels between unions bargaining in plant units (of multi-plant firms) and unions bargaining in firm-wide units.
- (2) Union wage levels increase as the size of the firm increases.
- (3) Unions are at a disadvantage when they are dealing with firms in highly concentrated industries unless the unions themselves are very strong.



The first result indicates that management has not used "whipsawing" to extract lower wage levels, or if they have, "whipsawing" has been offset by a combination of increased union militancy at the local level and management's desire to ease union pressure for firm-wide units (in order to have better control over productivity). Casual empiricism would also suggest that union "whipsawing" of firms is much more prevalent than the reverse phenomenon.

The evidence on the "deep-pockets" argument is somewhat less clear. If "deep-pockets" have a strong effect on wages, the size of the firm should have a negative effect on wages. In our study (as in studies on plant size), however, the size of the firm had a strong positive effect. It would appear that other forces in the large firm tend to outweigh any increased ability to "take a strike." On the other hand, our evidence that unions are at a disadvantage dealing with firms in highly concentrated industries (unless the unions are strong) may reflect the "deep-pockets" or "staying power" of these firms. Thus, the importance of "deep-pockets" for the balance of power between the union and the firm is ambiguous. It is possible that "deep-pockets" serve as a constraint on union power in concentrated oligopolies where competitive forces are not a factor.

This evidence indicates that within individual product lines both ability to whipsaw the union and "deep-pockets" are relatively unimportant for union wage levels if the firm is organized by a single union. The possible exception occurs in concentrated oligopolies where unions already have relatively high wages.





### Conglomerate Structure

Our second question bears more directly on the issue of how conglomerate mergers have affected the balance of power between unions and management. If power has shifted in favor of management, union wage levels should be lower in firms which are highly diversified and are organized by different unions in different product lines. In order to test this hypothesis, firms in our original sample were categorized as being highly diversified or as mainly producing in one product line. Four sources were used to categorize the firms: a list of "pure" conglomerates made up by F. Weston and S. K. Mansinghka [3] for a paper on conglomerates and performance; lists of conglomerates and diversified firms from Newfront [6] [7] and Forbes [4] [5] and our own classification of firms as being conglomerates or highly diversified (based on information from Moody's Industrial Manual 1973) excluding any firms which were organized by the same union in different product lines. Four dummy variables were generated as alternative definitions for tests of the hypothesis:

CONGL	A value of 1 for any firm included in Weston ("pure" conglomerates)
FCONG	A value of 1 for any firm included in Weston, <u>Forbes</u> or <u>Newfront</u> lists (Conglomerate plus diversified)
ALLCON	A value of 1 for all firms included in Weston, <u>Forbes</u> , <u>Newfront</u> or our own list
MYCON	A value of 1 for all firms included in our list (Conglomerate plus diversified excluding diversified but unionized by the same union)



Of the 450 firms in the sample, sixty-four were classified as "highly-diversified" by at least one of the four definitions.<sup>1</sup> The wage variable used to test this hypothesis is the hourly wage of janitors in 1970 (multiplied by 1000 for convenience) for each individual firm.<sup>2</sup> The results of the test of this hypothesis are given in Table 1. In each case the coefficient on the dummy variable for "highly diversified" firm is negative and in three of the four alternative definitions it is significant at the 5% level. "Highly diversified" corporate structure appears to lower union wage levels about three to four percent (holding other structural variables constant).

These empirical results support the view that corporate diversifications has shifted the balance of bargaining power in favor of management when this diversification has led to bargaining with different unions in different product lines. Moreover, our first finding that "whipsawing" and "deep-pockets" have very little impact when the firm is bargaining with a single union suggests that coalition bargaining would tend to offset any gains in bargaining power by management.

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<sup>1</sup>Theoretical explanations for inclusion of the other explanatory variables as well as a full explanation of data sources and the sample of firms is given in [2].

<sup>2</sup>The wage data were taken from union contracts. Of the 450 firms in the sample, only 367 had data on 1970 janitor's wages, so our final sample size is 367.



Table 1  
Regression Results for Alternative Definitions  
of "Highly diversified firm"<sup>3</sup>

<u>DUMMY=</u>	<u>CONGL</u>	<u>FCONG</u>	<u>ALLCON</u>	<u>MYCON</u>
UREG	7.11** (1.01)	7.12** (1.00)	7.04** (1.00)	7.01** (1.00)
CCR	3.07** (.84)	3.17** (.84)	3.23** (.85)	3.24** (0.84)
SIZE	128.1** (24.8)	135.0** (24.9)	132.9** (24.7)	134.2** (24.5)
BU1	-20.2 (53.0)	-16.5 (52.8)	-16.2 (52.9)	-20.0 (52.6)
BU2	139.2* (71.2)	144.8* (71.0)	147.6* (71.0)	148.5* (70.8)
BU3	-395.6** (96.4)	-401.5** (95.9)	-399.0** (95.9)	-399.4** (95.6)
SOUTH	-330.8** (56.2)	-328.3** (55.8)	-327.1** (55.9)	-322.4** (55.7)
RURAL	-168.5** (43.5)	-174.5** (43.4)	-176.4** (43.6)	-176.5** (43.4)
LC/TC	-14.0** (1.83)	-13.9** (1.82)	-13.9** (1.82)	-14.0** (1.81)
DUMMY	-66.2 (58.5)	-104. * (50.5)	-87.6* (44.1)	-113.0* (45.5)
CONSTANT	2368.1	2339.1	2354.0	2358.1
R <sup>2</sup>	.450	.454	.453	.458
N	367	367	367	367

\* significantly different than zero at 5% level

\*\* significantly different than zero at 1% level

Standard errors are in parenthesis.





### Conclusions

This note has dealt with only one of a number of issues involved in the argument over coalition bargaining: the effect of a shift in bargaining power due to a change in corporate structure. Empirical support has been given for the argument that conglomerate mergers have shifted "tactical power" in favor of management. Yet, this evidence certainly does not give unambiguous support to coalition bargaining. Although corporate diversification appears to lower union wage levels, increases in the size of the firm increase wage levels. Increasing industry concentration (up to a point) also seems to increase wages. Thus, the net effect of a merger wave remains unclear. It is at least questionable to argue that coalition bargaining should be allowed in order to counterbalance the loss of bargaining power due to conglomerate mergers. In fact, the strongest case for coalition bargaining is in industries such as railroads, newspapers and constructions where it is hoped that coalition bargaining will lead to lower union wage demands--not increased union power.



AppendixExplanatory variables used in analysis

UREG	Percentage unionized in the industry
CCR	Corrected four-digit concentration ratio
SIZE	Log of the size of the firm measured by number of employees
BU1	Plant-wide bargaining unit dummy
BU2	Multi-employer bargaining unit (local)
BU3	Industry-wide bargaining unit
SOUTH	Dummy for plant is south
RURAL	Dummy for plant outside SMSA
LC/TC	Proportion of labor costs in total costs for industry



Highly Diversified Firms

Abex H	Loews Corp F, H
Allegheny Ludlum H	Lykes-Youngtown H
Allis Chambers F, H	Marcor Corp F, H
American Brands W, F, H	Martin Marietta F, H
American Metal Climax W, F	Mead Corp H
American Manuf H	Minn Mining & Mfg F, H
Armour F, H	Nabisco H
Beatrice Foods F, H	National Distillers W, F, H
Boise Cascade W, F, H	National Lead F, H
Borden Company H	North American Rockwell W, F, H
Borg Warner W, F, H	Norton Simon F, H
Combustion Engineering H	Occidental Petroleum W, F
Dart Industries W, F, H	Ohlin Matheson W, F, H
Diamond International W, F, H	Ormand Indust. H
Dressler W, F, H	PPG Industries F, H
EPNG H	Pacific Holding H
Eaton Corp W, F	Phillip Morris H
FMC W, F, H	Quaker Oats H
Flintecote H	Queston Corp H
General Tire F, H	Rapid-American Corp W, F, H
Genesco W, F, H	SCM Corp W, F, H
Georgia Pacific W, F, H	Sperry Rand F, H
W R Grace W, F, H	Standard Brands H
Gulf and Western W, F, H	TRW W, F
Heublein H	Talley Industries H
Kaiser Industries F, H	Tenneco W, F, H
LTV W, F, H	Textron W, F, H
Litton Industries W, F, H	Union Carbide F, H





U.S. Plywood-Champion Paper	F, H	Jim Walter Corp	H
U. V. Industries	H	Warner Lambert	H
U. S. Tobacco	H	Williams Bros.	H
Universal Oil	F, H	Zapata Norness	H
VRW Industries	F, H		

W Listed in Weston

F Listed in Forbes or Newsfront

H On our list based on Moody's Industrial Manual



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